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REPORT TO THE CONGRESS

Need To Strengthen Control Over Incoming United States AID Cargoes In Vietnam B-159451

Agency for International Development
Department of the Army

*BY THE COMPTROLLER GENERAL
OF THE UNITED STATES*

MAY 15, 1968



COMPTROLLER GENERAL OF THE UNITED STATES
WASHINGTON, D.C. 20548

B-159451

To the President of the Senate and the
Speaker of the House of Representatives

The control over incoming United States assistance program commodities in Vietnam by the Agency for International Development and the Department of the Army has been reviewed by the General Accounting Office.

The fieldwork for this review was completed, for the most part, in December 1967 shortly before the recent escalation of military activity. Therefore, we have been unable to assess the effects of this activity on matters discussed in this report.

Our examination revealed a need for both the Agency and the Army to strengthen accountability and security control over the hundreds of millions of dollars' worth of economic assistance program commodities entering Vietnam--\$504.9 million was expended in fiscal year 1967 for items such as food, clothing, equipment, and medical supplies. Accountability over the receipt, storage, and movement of these goods was not effective. Security efforts, while increasing, seemed insufficient.

There is no reliable measure of the cost, quantity, and condition of such commodities in and around Vietnamese ports or of the extent, and consequently the causes, of losses due to theft, diversion, and spoilage. While it is possible that most of these commodities reach their intended destination, existing management controls do not reasonably ensure this.

In large part we attribute the conditions we noted to the fragmentation of responsibility among responsible agencies in Vietnam and to the essentially advisory role played by United States personnel.

In view of the unique circumstances in Vietnam, we cannot reasonably expect the same degree of control over commodities that might be found within the United States. We believe, however, that there is room for improvement in an effort to achieve the best control possible under the circumstances.

Among the more specific matters noted during our examination were the following:

- The loss of commodities from unguarded shipments between the port and first destination, after Agency officials informed a committee of the Congress and our Office that such commodities would henceforth be escorted by a local contractor.
- The restraint exercised by Agency officials in requesting the Government of Vietnam to refund the cost of goods stored at Vietnamese ports for prolonged periods of time.

On the basis of our review, we are recommending to the agencies concerned that they--

1. Develop a synchronized inventory accountability system within existing structures and environmental conditions.
2. Arrange for local escort service to first destination of all commodities in which the Agency has an interest, until indemnification agreements are reached with trucking companies.
3. File refund claims when the Government of Vietnam cannot expeditiously provide evidence that cargoes reported to be stored in ports for prolonged periods of time have been removed. The country-to-country agreement provides that the United States may require a refund in cases where such goods do not enter the economy within 90 days after arrival in Vietnam.

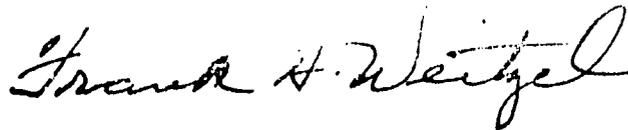
We believe that both Agency and Army personnel are to be commended for their contributions in virtually eliminating the previous cargo congestion at Vietnamese ports.

The matters discussed in this report were favorably received by both the Agency and the Department of the Army. Their responses have been given appropriate recognition in the report and the full texts of these comments are included in appendixes II and III.

B-159451

We are reporting this matter to the Congress because of its concern with United States activities in Vietnam, and to point out steps that can be taken by the Agency for International Development and the Department of the Army to strengthen management controls over economic assistance program commodities.

Copies of this report are being sent to the Director, Bureau of the Budget; the Secretaries of State, Defense, and the Army; and the Administrator, Agency for International Development.

A handwritten signature in cursive script, reading "Frank H. Weitzel".

Acting Comptroller General
of the United States

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REPORT ON
NEED TO STRENGTHEN CONTROL
OVER INCOMING UNITED STATES AID
CARGOES IN VIETNAM
AGENCY FOR INTERNATIONAL DEVELOPMENT
DEPARTMENT OF THE ARMY

INTRODUCTION

The General Accounting Office has made a review of the control being exercised by responsible United States agencies in Vietnam over United States-provided economic assistance program cargoes in and around Vietnamese ports. Our review was made pursuant to the Budget and Accounting Act, 1921 (31 U.S.C. 53), and the Accounting and Auditing Act of 1950 (31 U.S.C. 67).

Our review, which was made at the request of the Chairman of the Subcommittee on Foreign Operations and Government Information, House Government Operations Committee, was directed primarily toward an appraisal of the effectiveness of the security and accountability controls over the hundreds of millions of dollars' worth of economic assistance program commodities arriving in Vietnam yearly in support of various United States assistance programs. In accordance with an agreement reached with the Subcommittee staff, this report is being released to the Congress as a whole.

We inquired into the information available regarding the extent of commodity losses resulting from diversions or other causes. We also gave attention to the status of the backlog of commodities stored in and around the various ports in Vietnam and to the availability and reliability of management information on the status of commodities in the pipeline and commodity arrivals in country.

Our fieldwork was performed in Vietnam between August and December 1967.

A list of the principal management officials responsible for activities discussed in this report is shown in appendix I.

BACKGROUND

According to records of the Agency for International Development (AID), \$504.9 million was expended in fiscal year 1967 under the following programs in Vietnam for commodities such as food, clothing, equipment, and medical supplies.

<u>Program</u>	<u>Amount</u> <u>(millions)</u>
Commercial Import Program	\$261.9
Pacification Program	63.0
Public Law 480 (agricultural commodities)	<u>180.0</u>
Total	<u>\$504.9</u>

These goods entered Vietnam through several ports operated by the United States military forces and the Government of Vietnam (GVN). The major ports are (1) the United States Army Terminal, Saigon, (2) the United States Army Terminal, Newport, and (3) the commercial port of Saigon. Other ports are the military and commercial ports in Da Nang, Qui Nhon, and Nha Trang. Since the dominant part of AID-financed commodities shipped to Vietnam are reported by AID's mission to Vietnam (hereafter referred to as USAID) and the Army to enter through the commercial port of Saigon and the Army terminals at Saigon and Newport (near Saigon), our review was mainly concentrated at these locations.

The Army terminals at Saigon and Newport are operated by the 4th Transportation Command, a subordinate unit of the 1st Logistical Command, United States Army, Vietnam (USARV). The commercial port of Saigon is operated by the Saigon Port Authority, an arm of the GVN National Port Authority, which has overall control and responsibility for the operations of all commercial ports in Vietnam.

In July 1966, USARV was assigned the mission of advising and assisting the Saigon Port Authority on commercial operations pertaining to Commercial Import Program (CIP) and purely commercial cargo handled through the commercial port of Saigon. This mission was assigned downward through

USARV's hierarchy until, in early October 1966, it was assumed by the 125th Transportation Command, a subordinate unit of the 4th Transportation Command.

Under an interservice support agreement effective July 4, 1966, USARV agreed to provide water terminal, drayage and related services to first destination consignees within II, III, and IV Corps Tactical Zones (which includes Saigon), Republic of Vietnam, for USAID-sponsored cargo consigned to USAID or an agency of GVN. The United States Naval Forces, Vietnam, handles USAID-sponsored cargo within the I Corps Tactical Zone. The responsibilities of military terminals include:

1. Notifying first destination consignees when to expect discharge and delivery of cargo.
2. Transporting of cargoes to first destination consignees as indicated on cargo delivery instructions received from USAID.
3. Discharging all USAID cargoes manifested on each ship.
4. Obtaining receipted copies of delivery documents from first destination consignees.
5. Furnishing USAID corrected cargo listings (commercial ships) or outturn reports (military ships) to indicate amounts and condition of cargoes actually discharged from ships.
6. Furnishing receipted copies of delivery documents showing delivery to consignees.

AID/Washington advised us that, although this agreement was effective July 4, 1966, it was not signed by the parties thereto until June 1967. Therefore some of the responsibilities spelled out therein were not discharged during all of the intervening period.

FINDINGS AND RECOMMENDATIONS

NEED TO STRENGTHEN ACCOUNTABILITY CONTROLS OVER THE RECEIPT AND DELIVERY OF UNITED STATES-FINANCED COMMODITIES

United States agencies have not been able to maintain effective accountability control over the hundreds of millions of dollars' worth of economic assistance program commodities arriving in Vietnam since the start of the massive buildup in late 1965. Although significant improvements have been made in the almost chaotic conditions prevailing at the height of the buildup, notably in drastic reduction of port congestion and the amount of cargo awaiting delivery, there is still no effective accountability over the receipt, storage, and movement to first destination of these goods. We attribute these conditions mainly to the fragmentation of responsibility among agencies in Vietnam and to the essentially advisory role played by United States personnel in that country.

There is thus no reliable measure of the cost, quantity, and condition of such commodities in and around Vietnam ports or of the extent of losses due to theft, diversion, and spoilage. While it is possible that most of these commodities reach their intended destination and that they are in usable condition, existing management controls do not provide reasonable assurance that this is happening. USAID is aware of these problems and is working to correct them. The results of USAID's efforts in large part remain to be demonstrated.

The need to establish effective accountability for United States-financed cargoes arriving in Vietnam is illustrated by the following conditions.

1. More than 2 years after the start of the buildup in late 1965, USAID still does not have, except in the most general of terms, reliable information as to the quantity and cost of commodity arrivals on a periodic basis, e.g., month-to-month, year-to-year, year-to-date, etc. Rather, such information must be gleaned by contacting the numerous offices

within USAID responsible for the many-faceted assistance program. In many instances, raw data must be purified not only within USAID, but also within several commands of USARV and bureaus of the GVN, to arrive at even a reasonable approximation of the arrival status of United States-financed commodities.

2. USAID's electronic data processing tabulations show that over \$30 million in CIP commodities had not been picked up by importers for extended periods of time. USAID was attempting to verify this information on a case-by-case basis--a most time-consuming undertaking--because of its view that the \$30-million figure was substantially overstated. We agree that in all likelihood little reliance can be placed on this figure. (See p. 10.)

We found that there were two different systems relating in varying degrees to accountability for economic assistance program commodities, as follows:

1. A documentation system for other than CIP commodities used by the 4th Transportation Command, USARV, and consisting of cargo outturn reports and Transportation Control Movement Documents. This system is intended to account for all goods passing through the port which are under the control of the 125th Transportation Command, a subordinate of the 4th Transportation Command.
2. USAID's inventory accounting system for CIP commodities. This system is intended to yield data on the complete pipeline and delivery status of CIP commodities.

We also noted a documentation and record system maintained by the 125th Transportation Command for commercial cargo, including CIP goods entering the Saigon commercial port area, and records of such cargo stored at that port. Army officials advised us that this system was designed for developing statistical data only, rather than for accountability purposes.

Each of these systems was deficient in that (1) key documents often were not properly prepared, controlled, reviewed, and reconciled and (2) adequate information was not available as to the status of goods in the pipelines, i.e., arrived, on hand at the port, and delivered.

We began the accountability phase of our work by testing a number of transactions shown on the records of the 4th Transportation Command and USAID and found that the items tested reflected a loss of only 0.63 percent of the value of economic assistance cargoes from the time of off-loading in the port of Saigon to the time the goods reached their first destination. However, upon further review of the bases for such records, the results of which are discussed below, we concluded that this indicated loss factor could not be relied upon, since (1) the records from which it was developed were themselves unreliable and (2) there was no effectively implemented underlying control system to produce accurate and complete accountability records.

Commodities handled through United States Army terminals

The documentation system in use by the 4th Transportation Command had not been implemented to provide effective accountability over the receipt of goods consigned to USAID or GVN agencies at the port and their delivery to first destination consignees. As a result, there was no assurance that all such commodities arriving aboard vessels were discharged, nor that all commodities discharged were received by consignees or otherwise accounted for. The inadequacies of the documentation system are described below.

Cargo short landings

Outturn reports, which should reflect differences between cargo manifested and cargo discharged, had not been prepared for about 277 of 396 vessels carrying AID-interest cargo which completed discharge and departed the port between January 1 and November 30, 1967. Until these outturn reports are completed, the extent of short landings cannot be determined.

Cargo losses within the port

No determination was made of cargo lost or stolen while in transit through the port, although this could have been done by reconciling cargo shipped to consignees with cargo discharged, using basic documentation that existed. This documentation is in the form of ships' tallies showing cargo discharged from vessels and of Transportation Control Movement Documents (TCMDs) showing cargo shipped from the port to consignees.

Army officials in Vietnam advised us in March 1967 that they were developing a reconciliation system for cargo within the port. This system had been implemented by mid-March 1968, but only limited coverage had been effected.

Cargo losses between port and first destination

Cargoes received by consignees, as shown by receipted delivery copies of TCMDs, were not being reconciled on a timely basis to TCMDs describing cargo leaving the port en route to the consignee. As of June 30, 1967, these reconciliations had not been made on cargoes from 188 of the 235 vessels that discharged AID-interest cargo in Saigon during the first 6 months of 1967. Further, no discernible progress had been made to clear this backlog through mid-December 1967, when we were told by a United States Army official that the delivered cargo from 195 departed vessels remained to be reconciled. Without these reconciliations there was no assurance that all cargo shipped was actually received or otherwise accounted for and there could be no systematic identification of losses between the port and the consignee.

CIP cargoes passing
through the commercial port

In a previous report to the Congress,¹ we stated that USAID was developing an inventory accounting system for CIP commodities. The system's objective was to yield data on the complete pipeline and delivery status of CIP commodities from the date of license application to the pickup of the goods by importers. The system was to be fully operational by September 1967. The 125th Transportation Command also maintains records of all commercial cargo, including CIP goods, held in warehouses in the commercial port area.

USAID's inventory accounting system

In December 1967 when we completed our fieldwork, USAID's system was not fully satisfactory for the purpose of accounting for CIP commodities in the port area. As discussed below, evidence also suggested that the system was not fully satisfactory for determining the pipeline and delivery status of CIP commodities--the other purpose of the system. Because of shortcomings in the system, accurate information was not available within USAID regarding:

1. Whether all commodities that were discharged were received by importers.
2. Whether all commodities paid for by AID arrived and were discharged from vessels in Vietnam.
3. What commodities were in transit to Vietnam at any given date.
4. What commodities arrived in Vietnam for any given month or year or since the inception, or buildup, of the program.

¹Survey of the Agency for International Development's Management and Operation of the Commercial Import Program for Vietnam (B-159451, August 24, 1967), (pp. 53 to 54).

The inventory accounting system produces an "in customs" report which purports to show, among other things, the dollar value of unclaimed commodities in the port area, by general commodity category, importer, vessel, and arrival date of the goods. Each shipment is identified as to whether it has been in customs from 1 to 30 days, 31 to 60 days, 61 to 90 days, or more than 90 days.

The "in customs" report for September 30, 1967, was based on data from various sources and had an array of input dates, output dates, and cutoff dates. It included ship departures (which USAID considers to be the arrival date) through September 30, but only if the disbursements for the goods by AID/Washington had been made prior to August 31, 1967. Releases to importers as of October 31, 1967 (the report was issued November 18), were matched against vessel departures as of September 30, 1967, and the remaining shipments were classified as "in customs" as of the latter date. However, because of defects in the system, there is no assurance that all shipments that have arrived are listed on the "in customs" report.

The accuracy of the report was further reduced because there was no control to ensure that all customs releases were recorded in the system. Because of the condition of the GVN customs records, a large number of releases were undoubtedly never recorded by USAID. This seems to be the reason why the \$30 million in CIP goods shown as being in customs is questionable, as discussed below.

In May 1967 a USAID task force began calling on importers in an effort to purge the "in customs" report of shipments which had not been accounted for in customs releases. The USAID Audit Branch made similar contacts. The task force and the Audit Branch contacted 14 importers who were consignees of \$4,446,496 worth of CIP commodities listed in the "in customs" report. Their inquiries disclosed that almost 90 percent of the commodities had been previously picked up by consignees. On the basis of this information and other USAID reductions in the "in customs" figure, we estimate that the \$30,012,969 of CIP goods reported in customs over 90 days as of September 30, 1967, was an inaccurate figure and, in reality, could have been any amount between \$3 million and \$30 million, probably approaching the former.

The inventory accounting system does not provide timely and accurate information on the type and amount of commodities in the pipeline. In many instances shipments are shown as being "in transit" when they have actually been received by importers. In other cases shipments arrive in Vietnam without ever being accounted for as in transit.

Under the present system, commodities are recorded as in transit when actual disbursements are made by AID/Washington for commodities shipped by suppliers. Delays in disbursements or payments to suppliers and in furnishing disbursement information to USAID cause delays and inaccuracies in the recording of goods as in transit. For example, the September 30, 1967, "in transit" report reflected only shipments for which disbursements were made through August 1967. Thus, any shipment paid for in September and actually in transit on September 30 would not have been shown in this status on that date.

The September 1967 report also showed numerous disbursements made during 1966, which were never accounted for as arrivals or releases because vessel departure dates from Vietnam, used by USAID to designate commodity arrival dates, had not been recorded. In our tests we found instances where shipments were discharged from vessels but never recorded as in transit.

Army accounting for commercial shipments

The 125th Transportation Command also maintains (1) records of commercial cargo, including CIP goods stored at the commercial port, and (2) a documentation system for such goods entering the Saigon port. USAID envisioned in late 1966 that this documentation system would provide controls over CIP cargoes from the time vessels were discharged until the cargoes were delivered to individual imports. USAID had also planned to modify its inventory accounting system for commercial imports to accommodate input data from the 125th Transportation Command's documentation system, thus enabling it to follow CIP cargoes from the original license request, through all intermediate steps, to customs clearance. As noted below, these plans had not materialized at the time of our review.

Inventory listings of goods held in port warehouses were being prepared by the Army every 10 days; however, we found that the listings did not separately identify CIP goods. Consequently, they were of little, if any, value in assisting USAID to determine undelivered CIP commodities in the port area. Also, we observed that local Vietnamese personnel who maintained the records received practically no supervision and that the accuracy of the 125th Transportation Command's inventories was doubtful. For example, on December 8, 1967, we found a shipment of 112 tons of CIP-financed talcum powder in one port warehouse which did not appear on the Army's inventories. Our investigation of the circumstances disclosed that:

1. The talcum powder arrived on August 8, 1967.
2. The Vietnamese cargo checker--
 - a. Did not check the physical count against shipment records.
 - b. Apparently received little supervision.
 - c. Had no explanation for the omission of the goods from the inventory.

We found that the documentation system in use by the 125th Transportation Command did not provide accountability controls over commercial cargo entering the Saigon port and that the USAID plan to use data from this system had not materialized. Discharge tallies prepared by the Transportation Command showed inaccurate quantities of goods discharged from the vessels. For example, on one ship arrival we analyzed 14 bills of lading covering 6,885 items. The 125th Transportation Command's vessel tally showed 740 items as being short landed but the importers had actually received everything on the bills except four missing bags of resin and 11 drums of insecticide which we found in a port warehouse.

We found also that the documentation system of the 125th Transportation Command did not reflect all accountability actions for all consignments from discharge to receipt by consignees. Amounts of cargoes manifest were

not reconciled with amounts discharged from vessels, and cargoes receipted for by importers were not reconciled with cargoes leaving the port. In effect, the difficulties associated with accounting for non-CIP stocks were identical to those for CIP cargoes.

Agency action

The Department of the Army agreed with our findings as they applied to military responsibility in Vietnam and indicated that a number of measures had been and would be taken to improve upon the matter discussed above. The Department further agreed with our proposal, noted below, for a meshing of the various partial accountability systems at the port of Saigon.

AID/Washington advised us that the problems in USAID's system and its data had long been recognized and that considerable effort had been and would be expended to improve the data. We were advised further that a feasibility study of a proposed system was underway to improve this situation. AID/Washington added that, if this system is successful, it will have no counterpart in any commercial port in the world. The success of this system will rely on the cooperation and availability of accurate records of Vietnamese shipping agents and stevedore companies, the GVN Port Authority, and GVN customs.

As is evident from the foregoing discussion of USAID's proposed system, its success will hinge upon the cooperation of Vietnamese public and private sources and upon the capability of United States personnel to work with the records and/or data provided by these sources. Our previous experiences in Vietnam make it doubtful, in our opinion, that this contemplated procedure will be effective.

Conclusion

We did not observe any effective management effort on the part of USAID to synchronize the various partial accountability systems at the port of Saigon so that the status of United States-financed commodities, in terms of goods shipped, received in the port, transported from the port to first destination, and retained at the port, could

be ascertained. Consequently there is now no basis for determining with any reasonable degree of accuracy the losses that have occurred, the stage at which they occurred, or the reasons to which such losses are attributable.

Recommendation

We recommend to USAID that they, in concert with USARV and appropriate GVN agencies, promptly undertake the development of a synchronized overall accountability system, utilizing the existing structures to the extent feasible, to provide complete and reliable information, within the limitations imposed by the environmental conditions, regarding the key control stages, from the shipment of commodities to Vietnam through delivery to first destination.

PROGRESS AND PROBLEMS IN MAINTAINING
SECURITY OVER UNITED STATES-FINANCED COMMODITIES

There were indications of an increasing security consciousness on the part of United States and GVN officials. However, security measures needed for the protection of United States-financed economic assistance commodities had not been fully implemented. As in the case of the difficulties encountered in exercising accountability controls discussed on pages 5 to 14, we mainly attribute these conditions to the fragmentation of responsibility among agencies in Vietnam and to the essentially advisory role played by United States personnel.

The method of exercising security control over United States-financed commodities varied somewhat, depending upon the particular assistance program involved. For example:

1. At the time of our review, all CIP goods entered the Saigon commercial port area which is under the total control of GVN security agencies. Coordination with these agencies is effected by United States Army personnel.
2. All United States-financed commodities--other than rice; Public Law 480, title II, commodities;¹ and those financed under CIP--were off-loaded under the supervision and control of the United States Army. Until the summer of 1967, the off-loading of CIP-financed newsprint, galvanized iron (GI) sheet,

¹The GVN assumed responsibility for off-loading and delivering to first destination for rice and Public Law 480, title II, commodities on August 1, 1967, and on November 27, 1967, respectively.

and tinsplate were also under the Army's control. The Army has security responsibility for such goods while within the port area but does not guard most of them between the port and first destination, because its troops are needed for more urgent duties.

During our examination, we noted indications of an increasing security consciousness on the part of both USAID and GVN officials, as evidenced by the initiation of a security fence at the USAID storage facility at Thu Duc, increases in GVN personnel assigned to security duty in and around the port, efforts to streamline the GVN's administrative structure in port security matters, and similar actions. We believe that GVN's awareness of, and participation in, port security is essential, since few substantive improvements can be expected without GVN's participation and cooperation.

Notwithstanding these steps, a 125th Transportation Command official stated on November 4, 1967, that:

"Present concept is considered only minimal and generally limited to safeguarding certain cargo that has been identified as pilferable, of high blackmarket value, and does not usually include general cargo."

Problems persist. On an isolated, case-by-case basis these problems appear significant but their very nature, coupled with a general lack of reliable information, makes it difficult to assess their overall significance in relation to the massive amount of United States-financed commodities which have been, and are being, provided to Vietnam.

Theft and diversion

A 125th Transportation Command project status report dealing with cargo security, as of December 1, 1967, stated that control of pilferage in the port of Saigon is one of the most difficult problems to cope with. A number of classified reports prepared by United States intelligence and similar sources also went into varying degrees of detail

regarding theft and diversion of United States-financed goods from the port. In the interest of an unclassified presentation on this subject, we are omitting classified details to such cases.

The most comprehensive report we saw on this subject was a 15-page, single-spaced document dated January 6, 1967, by a Special Assistant to the American Ambassador, which was sent to the Deputy Ambassador; the Commander, Military Assistance Command, Vietnam; and the USAID Director. The report was identified as an unevaluated compilation of information gathered in the process of collecting economic information on the port of Saigon. No follow-up investigation by the author was contemplated, and the report was submitted to recipients for whatever use they cared to make of it. We noted other references to theft, diversion, and related matters in classified intelligence documents prepared throughout 1967.

Notwithstanding the sweeping implications of the reports we reviewed, cited instances of theft and diversion impressed us as relatively minor. The absence of adequate accountability controls, as discussed on pages 5 to 14, precluded us from determining the full extent of losses due to such factors. Also, it was sometimes unclear whether economic assistance program goods were involved or whether the goods were of military or post exchange origin.

Problems associated with transporting goods to first destination

In October 1966, the Committee on Government Operations, House of Representatives, in a report based upon a comprehensive investigation performed by its Foreign Operations and Government Information Subcommittee, commented on the absence of security measures over United States-financed commodities for which the USAID was responsible, between the port of Saigon and first destination.¹ The Subcommittee

¹Forty-second report by the Committee on Government Operations, 89th Cong., 2d Sess., H. Rept. 2257, p. 70.

found that goods were being transported from the port by inadequately guarded local carriers who disclaimed any liability for losses, except in the most unusual circumstances. At that time the Subcommittee recommended that existing trucking contracts be renegotiated to make the contractors liable for losses on the indemnification principle; i.e., the carrier being generally responsible to the shipper for the monetary value of any losses.

In January 1967, we brought to the attention of AID/Washington the fact that CIP-financed commodities consigned to USAID or GVN agencies,¹ and supposedly being guarded to the first destination, were still being transported from the port of Saigon by trucking companies without armed guards and that the carriers assumed no responsibility for losses resulting from such factors as theft, diversion, or damage.

As a result of top level discussions in Washington and after a protracted series of communications, USAID advised AID/Washington that it had arranged for a local firm to provide escort service for the transport of commodities for which USAID was responsible from the port to first destination. This information was also communicated by AID/Washington, in February 1967, to the Subcommittee on Foreign Operations and Government Information, and we noted this in our August 1967 report to the Congress (p. 30).

During our current examination, we observed that USAID had not been consistent in arranging for local guards to escort cargoes which it had previously agreed to do. For example, 7,812 skids of CIP-financed GI sheet consigned to USAID's account were off-loaded at Saigon by the Army between May 13 and July 7, 1967. However, only 4,536 skids, or 58 percent, were escorted by USAID's contractor to first destination. We could find no explanation as to which shipments were to be escorted and which shipments were not.

¹Until the summer of 1967, CIP-financed newsprint, tinplate, and GI sheet were being procured through the United States General Services Administration rather than through normal commercial channels. These commodities were handled by the Army in the same manner as other AID-interest commodities.

Although emphasis had been placed by the Subcommittee, AID/Washington, and our Office on the need for safeguarding the Government's interest in such cases, USAID officials were uncertain, at the time of our exit conference on December 19, 1967, as to whether USAID or the Army was, as a practical matter, responsible for safeguarding cargo consigned to USAID (or GVN) during shipment between the port and first destination, given the Army's policy of normally not safeguarding such cargo. (See p. 16.)

Not providing escort service contributed to en route losses. For example, \$80,695 worth of the CIP-financed GI sheet mentioned above disappeared en route to USAID's Thu Duc warehouse between May and August 1967, after USAID advised the Subcommittee, AID/Washington, and us that escort service would be provided by a USAID contractor. There was no evidence of any losses from guarded shipments of GI sheet during this period. The details on this situation are discussed immediately below, together with the limited facts available on the theft of an additional \$164,920 worth of CIP-financed GI sheet at Thu Duc.

On September 29, 1967, the Deputy Mission Director of USAID was advised by USAID's Logistics Division that about 2,200,000 pounds of GI sheet were missing, which had supposedly been delivered to USAID's Thu Duc storage facility. Subsequent investigation by USAID indicated that about 825,000 pounds, costing about \$80,695, disappeared while in transit between the port and the storage facility. The investigation further disclosed that the goods were included in an unguarded shipment. The reason this in-transit loss was not disclosed earlier is that (1) documents comparing quantities shipped with quantities received were not reconciled on a timely basis by the 4th Transportation Command (see p. 8) and (2) some of the receiving reports were signed by a person other than the intended consignee.

USAID's investigation disclosed also that about 1,463,000 pounds of GI sheet, costing about \$164,920, were stolen from the Thu Duc storage site itself. The report of investigation, which we read in preliminary draft in December 1967, indicated that on one occasion armed thieves entered the depot and made off with part of the 1,463,000 pounds of GI sheet.

USAID's Logistics Division reported the theft to the Deputy Mission Director in September 1967 and further advised him that it was not considered likely that there would be any further incidents of wholesale theft from the Thu Duc facility. The following actions were reportedly taken to improve security:

1. A security fence was 75 percent completed, and watch towers were in place and manned 24 hours a day.
2. Security guards were increased in number and effectiveness, and some security guards were off-duty, armed, GVN harbor police.
3. The GI sheet was subsequently stored in a more orderly manner, providing visual inspection to determine losses.

Agency action

AID/Washington expressed no disagreement with the facts presented above, but did stress that the Army had responsibility for negotiating trucking contracts. AID/Washington also advised us that, at the present time, the Army was responsible for only about 23 percent of incoming assistance program cargoes, the balance being accepted by the owner or consignee at the port.

The Department of the Army concurred in our finding insofar as it related to military responsibility in Vietnam. The Department advised us further that for a variety of reasons, it had been unsuccessful in obtaining indemnification agreements with local carriers but that efforts in this direction would be continued. The Department further advised us of a series of new directives and proposals designed to improve controls over the movement of goods from the port to first destination. The full text of these directives and proposals are set forth on pages 40 and 41.

Conclusion

Despite USAID's earlier statements that local escort service would be provided under contract for AID-interest

commodities shipped out of the port, we found that such escorts often were not provided. Also, we found that USAID officials were unclear as to what their responsibilities were to safeguard the Government's interest in such goods, given the Army's policy of not generally providing escort service. We believe that the losses resulting from not providing such safeguards are greater than those we specifically identified during our review. However, the difficulties encountered in establishing accountability controls over such goods precluded us from making an overall estimate.

Recommendation

We therefore recommend to AID/Washington that it instruct USAID to arrange for escort service to first destination of all commodities in which AID has a financial interest, until indemnification agreements are reached with trucking companies.

IMPROVEMENT IN THE STATUS
OF COMMODITY BACKLOGS

We found that relatively small quantities of United States-financed cargoes were being stored in and around the port of Saigon for extended periods of time. Generally, such cargoes were moving expeditiously from the port to their initial destination. This represents a drastic improvement compared with conditions earlier in 1967 and in 1966.

Improvement in vessel turnaround time

We analyzed the average elapsed time from arrival to departure of 161 vessels carrying at least some United States-financed cargo, as follows.

<u>Departure months</u>	<u>Number of vessels</u>	<u>Average turn- around</u>
September 1966	52	38.3
March 1967	34	35.9
August to October 1967	75	7.9

The only noteworthy problem that we observed was the clogging of a number of Vietnamese ports, including Saigon, with rice shipments during the period May through August 1967, and the consequent use of vessels as floating warehouses. There were a number of reasons for this, one of which was the bunching of ship arrivals. We found evidence suggesting that, as a consequence, the United States paid about \$190,000 in demurrage costs which USAID is now attempting to recover from GVN, as well as other rice demurrage costs for past years. The GVN agreed early in 1967 to pay all demurrage costs for United States-financed rice imports.

Reduced quantities of commercial cargo
in and around the port of Saigon

There had been a substantial reduction by November 1967 in the amount of commercial cargo reported aboard vessels, in port warehouses, and on barges, compared with the

congested condition of the port in early 1967. The cargoes at these points at various times are shown below, in short tons.

<u>1967</u>	<u>Total</u>	<u>Aboard vessels</u>	<u>Port ware- houses</u>	<u>On barges</u>
February 17	276,968	173,153	17,652	86,163
August 10	52,805	40,685	10,856	1,264
November 30	25,034	14,782	10,071	181

The difficulties encountered in establishing a fully satisfactory accountability system at the port (see pp. 5 to 14) militated against our determining what part of these commodities were CIP financed.

Distressed cargo

The country-to-country agreements under which CIP assistance is furnished to Vietnam, which incorporate pertinent AID regulations, provide that the United States may require GVN to refund the cost of any commodities which do not enter trade channels within 90 days after arrival in Vietnam. Such goods are known as distressed cargo.

Our analysis of GVN customs releases for 652 shipments of CIP-financed commodities, worth \$7,029,006, and constituting 89 percent of the total dollar value of cargo released from customs during the month of August 1967, showed an average of 39 elapsed days between the date vessels completed discharge and the approximate date that importers picked up their goods. Sixty-five of these shipments, worth \$354,099, were in the port area more than 90 days before the importer picked up his goods. This represents 10 percent of the shipments we examined and 5 percent of their value.

As far as we could determine, USAID had not filed a refund claim with the GVN in these or other cases where importers had not picked up their goods within 90 days. Both USAID and AID/Washington officials informed us that it had been their policy to exhaust all means of moving commodities

out of the port and into the economy before resorting to refund action.

USAID had taken the first step toward a possible refund of \$347,554 on September 12, 1967, when a letter was sent to the GVN requesting its comments on a number of CIP-financed shipments found at the port by its auditors. The goods, valued at \$347,554 had, according to USAID records, arrived in Vietnam between March 1966 and January 1967. Although the letter requested GVN comments by October 16, 1967, no response had been received by November 30--the USAID-extended suspense date for such comments. After we discussed the situation with USAID officials, a follow-up letter was written to the GVN on December 8, 1967.

The \$347,554 was part of about \$30 million worth of CIP goods shown by USAID's reports to have been in customs more than 90 days as of September 30, 1967. For the reasons stated on page 10, we agree with USAID that this report grossly overstated the condition; we believe that the amount was in reality closer to \$3 million. As further noted on page 10, the reason for the difference is the condition of GVN's customs records.

Agency action

AID/Washington told us that, to ensure receiving all future GVN Customs' release information in a timely manner, USAID intended having importers contact its office at the port immediately after they file their customs declarations.

We endorse this proposal and believe it will assist in resolving future problems stemming from the condition of GVN Customs records. The success of the contemplated procedure will, obviously, depend upon the full cooperation and understanding of all Vietnamese importers. AID/Washington did not indicate what underlying procedures would be undertaken to ensure such cooperation and understanding. Also, the proposed procedure will not contribute towards clarifying the status of goods that previously arrived.

For this reason we believe that the proposed system should be supplemented by the use of existing GVN records. We believe also that a firmer USAID position on refund

claims could materially contribute to future improvements in GVN Customs records and in clarifying the real status of cargoes that have previously arrived.

Recommendation

We recommend that USAID file refund claims where the GVN cannot expeditiously provide documentary evidence that cargo reportedly on hand more than 90 days after arrival in Vietnam has cleared the port.

INTERNATIONAL

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APPENDIXES

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PRINCIPAL MANAGEMENT OFFICIALS
RESPONSIBLE FOR THE ACTIVITIES
DISCUSSED IN THIS REPORT

	<u>Tenure of office</u>	
	<u>From</u>	<u>To</u>
<u>DEPARTMENT OF STATE</u>		
SECRETARY OF STATE:		
Dean Rusk	Jan. 1961	Present
UNITED STATES AMBASSADOR TO THE REPUBLIC OF VIETNAM:		
Ellsworth T. Bunker	Apr. 1967	Present
<u>AGENCY FOR INTERNATIONAL DEVELOPMENT</u>		
ADMINISTRATOR:		
William S. Gaud	Aug. 1966	Present
ASSISTANT ADMINISTRATOR, FAR EAST BUREAU:		
Rutherford M. Poats	Apr. 1964	May 1967
ASSISTANT ADMINISTRATOR, VIETNAM BUREAU (note a):		
Walter G. Stoneman (acting)	May 1967	June 1967
James P. Grant	June 1967	Present
CONTROLLER:		
Charles F. Flinner	Oct. 1964	Present
DIRECTOR, MISSION TO THE REPUBLIC OF VIETNAM:		
Donald G. MacDonald	Aug. 1966	Present

PRINCIPAL MANAGEMENT OFFICIALS

RESPONSIBLE FOR THE ACTIVITIES

DISCUSSED IN THIS REPORT (continued)

	<u>Tenure of office</u>	
	<u>From</u>	<u>To</u>
<u>DEPARTMENT OF DEFENSE</u>		
SECRETARY OF DEFENSE: Robert S. McNamara	Jan. 1961	Feb. 1968
SECRETARY OF THE ARMY: Stanley R. Resor	July 1965	Present
COMMANDER, MILITARY ASSISTANCE COMMAND, VIETNAM: Gen. William C. Westmoreland	Aug. 1964	Present

^aEffective May 21, 1967, a separate bureau was formed within AID to administer United States economic assistance programs in Vietnam. Prior thereto, AID's Far East Bureau administered the Vietnam programs.

DEPARTMENT OF STATE
AGENCY FOR INTERNATIONAL DEVELOPMENT
WASHINGTON, D. C. 20523

MAR 4 - 1968

ASSISTANT
ADMINISTRATOR

Mr. Oye V. Stovall, Director
International Division
General Accounting Office
Washington, D. C. 20548

Dear Mr. Stovall:

Thank you for your letter of January 26, 1968 which transmitted your draft report entitled, "Review of the Control and Accountability Over Incoming United States Assistance Program Cargoes at Various Ports in Vietnam."

The underlying thrust of your report is that U.S. agencies have not been able to maintain effective security and accountability control over the hundreds of millions of dollars of economic assistance program commodities arriving in Vietnam since late 1965.

While the report recognizes that the USAID has initiated a number of moves to alleviate problems in security and in commodity accountability, it alleges that the results of these efforts remain, in large part, to be demonstrated.

[See GAO note.]

APPENDIX II

Page 2

The report also recommends that USAID, in connection with the USARV and the appropriate GVN agencies, promptly undertake the development of a synchronized overall commodity accountability system. Steps to improve cargo accounting, as detailed in the attachment, have been taken in the past year, and further improvements are being sought during 1968.

The report recommends also that USAID file refund claims where the GVN cannot provide documentary evidence that cargo reportedly on hand 90 days after arrival in Vietnam has cleared customs. It has been the Mission's policy to exhaust all means of moving commodities out of the port into the economy before resorting to filing dollar refund claims.

[See GAO note.]

Finally, it appears quite evident that USAID has attempted to identify these problem areas and to apply corrective measures within its capabilities, under very difficult wartime circumstances. It should be recognized that such incidents as the recent VC Tet offensive have a decided impact upon port operations, including commodity accountability and security.

We appreciate the opportunity provided A.I.D. to review and comment on the draft report. As you have been previously advised, we have not been able to obtain formal comments from USAID on this specific draft report. However, in order to meet the deadline imposed, these comments are being submitted at this time.

Sincerely yours,



H. Rex Lee

Attachment:

A.I.D.'s Comments on Draft Report

ATTACHMENT

AGENCY FOR INTERNATIONAL DEVELOPMENT
COMMENTS ON THE GENERAL ACCOUNTING OFFICE (GAO)
DRAFT REPORT ENTITLED
"REVIEW OF THE CONTROL AND ACCOUNTABILITY
OVER INCOMING UNITED STATES ASSISTANCE
PROGRAM CARGOES AT VARIOUS PORTS
IN VIETNAM"

Set forth below are comments keyed to the draft report by page numbers and, generally, by quotations or citation of the pertinent portions of the report.

Page 5, paragraph 1

Findings and Recommendations:

The draft finds that there are significant weaknesses in security measures for commodities and no effective accountability control over the receipt, storage and movement to first destination of these goods. It also finds USAID is aware of these problems but that the results of its moves to alleviate them, in large part remain to be demonstrated. Further, it states that there is no reliable measure of the extent and causes of loss due to theft, diversion and spoilage.

We consider that the following information, not presently incorporated in the study, should be considered by your office as justifying substantial modification of these findings:

The draft cites no instances of "spoilage" of commodities, and spoilage is not mentioned except in the "Findings and Recommendations." Reference to spoilage is therefore considered unsubstantiated and should be deleted.

The findings state that security measures recommended by the Foreign Operation and Government Information Subcommittee, Committee on Government Operations, House of Representatives, had not been fully implemented by USAID. The findings do not record that A.I.D., with Department of Defense concurrence, advised the Chairman of the Subcommittee by a letter dated December 6, 1967 that four of its five recommendations, in its Sixth Report of August 25, 1967, pertained to activities that are controlled or monitored by the U.S. military. All of their security recommendations fell in this category.

A Military Assistance Command, Vietnam - USAID/VN Agreement of December 1, 1966 for Water Terminal Drayage and Related Services in Vietnam actually preceded the Interservice Support Agreement (ISSA) referred to on page 3 of the draft. Although the ISSA was made effective retroactive to July 4, 1966, it was not signed until June 1967.

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The most significant changes incorporated in the ISSA were new U.S. Army Vietnam (USARV) responsibilities to:

- (a) Obtain a receipted copy of Transportation Control and Movement Documents (TCMD) from first destination consignees. This document will be annotated to show date, condition and count of all cargoes delivered and signature of person receiving same.
- (b) Furnish USAID the following data pertaining to the discharge and movement to first destination of all USAID cargoes that arrived at USARV water terminal on each ship during the accounting period.
 - (1) A listing of USAID cargoes manifested on each ship.
 - (2) Corrected cargo listings (commercial ships) or out-turn report (military ships) to indicate amounts and conditions of cargoes actually discharged from ship.
 - (3) Receipted copy of TCMD's (showing delivery).

Page 6, paragraph 2

Should be reworded to read:

"All U.S.-financed commodities (except Commercial Import Program (CIP), PL 480 Title I rice and PL 480 Title II items) are currently off-loaded under the supervision and control of the U.S. Army. In the past some CIP-financed newsprint, tinsplate and galvanized iron sheet have been similarly handled. The Army has security responsibility for USAID interest cargo which it handles, until it is receipted for by the first destination consignee. USAID recognizes its corollary responsibility for the cargo, and in conjunction with the U.S. Army, is making every effort to insure its safe delivery to first destination."

[See GAO note.]

Page 12, paragraph 2

Reference to "USAID officials were uncertain as to whether USAID or the Military was responsible for security of cargo consigned to USAID or the Government of Vietnam (GVN) during shipment between port and first destination" should be amended to reflect that USAID considers the U.S. Army has security responsibility for USAID interest cargo which it handles, until it is received for by the first destination consignee, by virtue of paragraph 7 c (3) of ISSA 67-VS-074. Further, the draft does not make clear that the preponderance of USAID interest cargo is now received and receipted for by the consignee within the Port of Saigon, namely all PL 480 cargo and all CIP cargo. Its security in-transit to first destination in country therefore becomes the responsibility of the owner or consignee, whether it be an agency of the GVN, or the commercial importer. The U.S. Army is currently discharging and moving to first destination only project commodities. This constitutes about 23% of the dollar value of the FY 68 program (Project \$90.487 million; PL 480 \$109.6 million; CIP \$200 million). USAID is also seeking the U.S. Army's concurrence to permit the GVN's Central Procurement and Supply Agency, to whom the preponderance of project commodities is consigned, to receipt for Army discharged project stocks within the Army-controlled portions of the Port of Saigon. The Central Procurement and Supply Agency would then move their commodities to first destination in country and be responsible for their security in-transit.

Pages 17 and 18

Inasmuch as copies of this draft report have been provided to Department of Defense and Department of Army, they will comment on portions pertaining to their areas of responsibility. For this reason, A.I.D./W did not address itself to these areas.

Page 1 thru Page 22Automated Arrival Accounting System

USAID has long recognized the apparent weakness in the system and the data appearing in the reports. Considerable effort has been expended and will continue to be expended in improving the data. USAID is presently conducting a feasibility study of a proposed system by which detailed physical quantities of cargoes will be accounted for from dockside to customs warehouse and finally to release to importer. If this system is successful, it will have no counterpart in any commercial port in the world, and it must rely on the cooperation and availability of accurate records of the commercial stevedores who discharge the ships and operate the port transit sheds, the GVN Port Authority and the GVN Customs. If operable, the information from the system will greatly assist in monitoring distressed cargo, and provide better accountability of physical location of cargo than that presently provided by the 125th Transportation Command's cargo documentation system. The magnitude of the task and the extent of achievements can be evaluated from the following recapitulation of the reports.

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The report for January 1967 portrayed the following values "in customs" in millions of dollars:

In Customs 1-30 days	\$ 11.3
In Customs 30-60 days	17.0
In Customs 60-90 days	<u>11.1</u>
Sub-total	39.4
In Customs over 90 days	<u>42.3</u>
Total	\$ <u>81.7</u>

Subsequent dollar value of commodities entering accounting system through September 1967. \$122.5

Total input through September 1967. \$204.2

Residual dollar value reported as of September 30, 1967:

In Customs 1-30 days	\$ 0.2
In Customs 30-60 days	0.4
In Customs 60-90 days	<u>0.4</u>
Sub-total	\$ 1.0
In Customs over 90 days	<u>28.5</u>
Total	\$ 29.5

Dollar value accounted for through September 30, 1967. \$174.7

Percent of total input accounted for through September 30, 1967. 85.5%

The present under 90 days total of \$1 million indicates that USAID is encountering some success in obtaining current releases data from GVN Customs, and that the real problem is locating GVN Customs documentation that occurred during the massive build-up last year.

In addition to efforts to improve procedures for collecting data, the systems analysts have been making system improvement studies of cargo documentation provided by the Saigon Port Authority with a view to incorporating it into the arrival accounting systems.

A.I.D./W is studying the feasibility of sending USAID weekly tapes of their disbursements in order that information will be more current.

Pages 24 and 25

Recommendation

[See GAO note.]

Although the field work performed for the GAO report was between September and December 1967, it fails to relate that since July 1967, no CIP commodities are being shipped on Military Sea Transport Service vessels or handled by the U.S. Army upon arrival at Saigon for transfer out of the port area.

Page 26

Reference to demurrage charges of \$190,000 should read for the account of the GVN and not the U.S.

Pages 27 and 28

"The country-to-country agreement under which CIP assistance is furnished to Vietnam provides that the GVN will refund to the U.S., in dollars, the cost of any commodities which do not enter trade channels within 90 days after arrival in Vietnam. Such goods are known as distressed cargo." Following is a summary of comments provided by USAID on this subject:

"The Economic Cooperation Agreement with Vietnam contains no specific agreement that the GVN will refund to the U.S., in dollars the cost of any commodities which do not enter trade channels within 90 days after arrival in Vietnam. A.I.D. Regulation I Section 201.81 states that A.I.D. may require the borrower to refund such amount as is attributable to violation of requirements of Part 201. A.I.D. Manual Order 792.1.1 defines Distressed Cargo and states 'in the absence of extenuating circumstances which justify exception' that dollar refund should be claimed.

The 'In-Customs Report' of January 1967, the initial report prepared by the Automated Arrival Accounting System, indicated \$42.3 million of commodities remaining in customs over 90 days. It was recognized that this was a grossly overstated amount and we commenced recording partial releases in addition to

APPENDIX II

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complete releases from GVN Customs records. Soon it became obvious that this approach was not too effective due to lack of understanding and cooperation by GVN Customs officials. Meetings were held with Senior GVN Customs officials and the Automated Arrival Accounting System was explained to them. The additional cooperation that we have received is evident by comparing the January total for 0-90 days amount of \$39.4 million to that of September of \$1.0 million. The over 90 days figure of \$28.5 million at the end of September is largely due to the lack or loss of records in GVN Customs for the period prior to March 1967. We commenced calling on importers to examine their records for commodities released from Customs for which we had been unable to obtain documentation from GVN Customs, and as a result we have traced approximately \$10.8 million of commodities released. Contacting importers has proven to be a slow process and we are now mailing questionnaires to importers in an attempt to speed the process of purging our records of erroneous information.

To ensure receiving all Customs release information as soon as an importer takes it out of the Port, we are establishing a new procedure of having the importer contact our office at the Port immediately after he has filed the Customs Declaration with GVN. This new approach should reduce the delay we are now experiencing with GVN Customs.

The GAO Report cites 65 shipments totalling \$354,000 which were picked up by the importer after 90 days and states no refund claim was filed. It has been our policy to exhaust all means of moving commodities out of the Port into the economy before resorting to filing dollar refund claims. Quite often the importer is unable to locate his cargo in the Port, and when notified of its location will pick it up immediately. We consider we are doing more for the success of the program by assisting the importer in this way, than by filing a claim immediately when we find a shipment that has been in the warehouse over 90 days.

The GAO Report also mentions our cautious approach to a refund claim of \$347,000 with the inference that we have been lax in following up our letter of September 12, to the Deputy Minister of Economy and Finance. We did follow up the matter with a letter on December 8, and our reason for extending more time was that we knew that the Minister had taken action to contact the importers. We will file a refund claim as a last resort.

We have in process another \$300,000 of cargo not released to importers which we intend to inform GVN of in the near future. Our priority project has been contacting importers to purge our data processing reports of \$23.5 million of over 90 days cargo."

GAO note: The deleted comments are not pertinent to the matters discussed in this report.



DEPARTMENT OF THE ARMY
OFFICE OF THE ASSISTANT SECRETARY
WASHINGTON, D.C. 20310

15 MAR 1968

Mr. Oye V. Stovall
Director, International Division
United States General Accounting Office
Washington, D. C. 20548

Dear Mr. Stovall:

This is in response to your letter of 26 January 1968, to the Secretary of the Army requesting comments on your draft report titled "Review of the Control and Accountability over Incoming United States Assistance Program Cargoes at Various Ports in Vietnam". (OSD Case #2717)

With reference to the second paragraph of your letter relative to security classification aspects of the report, the security classification can only be downgraded by the activities originating the source material. To avoid classification, it is suggested pages 8-11 of the draft report be rewritten to eliminate classified portions. The revised report could indicate that a number of classified reports were reviewed which document cases of pilferage and losses, and that source material or findings in detail will be made available to authorized personnel if requested.

The Army has no objection with respect to those findings pertinent to the military responsibilities in the handling of USAID cargo moving through military terminals in Saigon. Attached is a summation of items addressing military operations and the actions completed or under way to correct cited deficiencies. The Department of the Army is also cooperating with USAID officials to accomplish any joint actions necessary.

This reply is made on behalf of the Secretary of Defense.

Sincerely,

A handwritten signature in cursive script that reads "Vincent P. Huggard".

Vincent P. Huggard

Deputy Assistant Secretary of the Army
(Installations and Logistics)

1 Incl
Army Position Statement

APPENDIX III

Page 2

Army Position on Draft GAO Report: Review of the Control and Accountability Over Incoming U. S. Assistance Program Cargoes At Various Ports In Vietnam

1. GAO Recommendations: The GAO recommendations are directed primarily to USAID. The one involving the Army recommends that "USAID, in concert with USARV and the appropriate GVN agencies, promptly undertake the development of a synchronized over-all commodity accountability system, utilizing the existing structures to the extent feasible to provide complete and reliable information, within the limitations imposed by environmental conditions, regarding the key control stages from the shipment of commodities through delivery to first destination."

2. Army Position: Concur in the findings of the report and the recommendations insofar as military responsibility is concerned. Findings of the report address deficiencies in military operations in the following areas:

(a) Delay in reconciling receipts against outloading documents; backlog of cargo outturn reports on ships discharging USAID cargo; and overall lack of accountability for cargoes processed through the Saigon Ports.

(b) Lack of safeguards in protecting cargo from loss or unauthorized diversion resulting from insufficient escorts of trucks carrying USAID cargo.

(c) Carriers assume no responsibility for losses resulting from such factors as theft, diversion or damage; and current procedures are inadequate for controlling receipt documents and assuring delivery to authorized receivers.

3. Action Taken: (a) In October 1967 procedures were established requiring numbering and control registers for issuing blank TCMD's, typing or machine preparation of all TCMD's for improved legibility, and a suspense system for follow-up to obtain delivery receipts 5 days after the gate tally date of exit from the ports. A special team is maintained in the Cargo Accounting Division to conduct spot checks at the ports and consignees to assure compliance. Also, action is currently in process to obtain and install ADPS equipment which will match cargo manifests, vessel discharge tallies, gate tallies, and delivery receipts. The immediate objectives of this system are to provide document control and accountability over cargo passing through military terminals and to reduce the cargo outturn reporting backlog. This equipment is scheduled to be installed about May 1, 1968.

(b) Port and depot commanders have been directed to continually review the requirements for adequate truck security and establish appropriate procedures to insure the security of in-country shipments. For example, current regulations provide that:

(1) Loads moving by motor transport must be adequately secured by banding, strapping, or other suitable means and/or covered by tarpaulin when necessary.

(2) If local nationals or third country nationals are used as drivers, maximum use will be made of convoys, escorted by armed U.S. guards. If groups cannot be formed and vehicles must proceed unescorted, maximum effort will be made to provide a U.S. guard to ride with the load. These guards will be assigned according to priorities determined by the criticality of the cargo being transported.

(3) Consignees will be notified of the time of dispatch and approximate time of arrival of cargo.

Convoy procedures for cargo moving from the port to first destination establish a limit of five vehicles per convoy. A guard equipped with a radio rides in the first vehicle; another guard rides in the middle vehicle; and a radio equipped vehicle, manned by guard personnel, follows the convoy. When extremely sensitive cargo is being moved, an additional guard is assigned to the truck.

(c) The Military Assistance Command, Vietnam, has attempted to renegotiate an indemnification clause for losses of goods in transit with the two American trucking firms (Phileo-Ford and Equipment, Inc.) providing transportation service in Vietnam, but neither has been willing to assume additional liability without insurance coverage; and they have been unable to obtain such coverage thus far because of the hazardous conditions that prevail in Vietnam, the extremely wide range in value of the cargo being moved, and the lack of experience factors. As trucking contracts expire, efforts have been made to negotiate new contracts containing the indemnification principle with other companies, but these efforts have also been unsuccessful. However, we are requesting MACV to continue in their effort to obtain this additional coverage if the cost is not too great.

A partial solution to this problem is being recommended to MACV wherein the contracts would be revised to base payment for carriage on presentation of authentic delivery receipts. Also, a system is being established whereby distinctive stamps will be used by major consignees to indicate the receipt of shipments. This should materially reduce the number of delivery receipts being signed by unauthorized personnel.